COVAD®

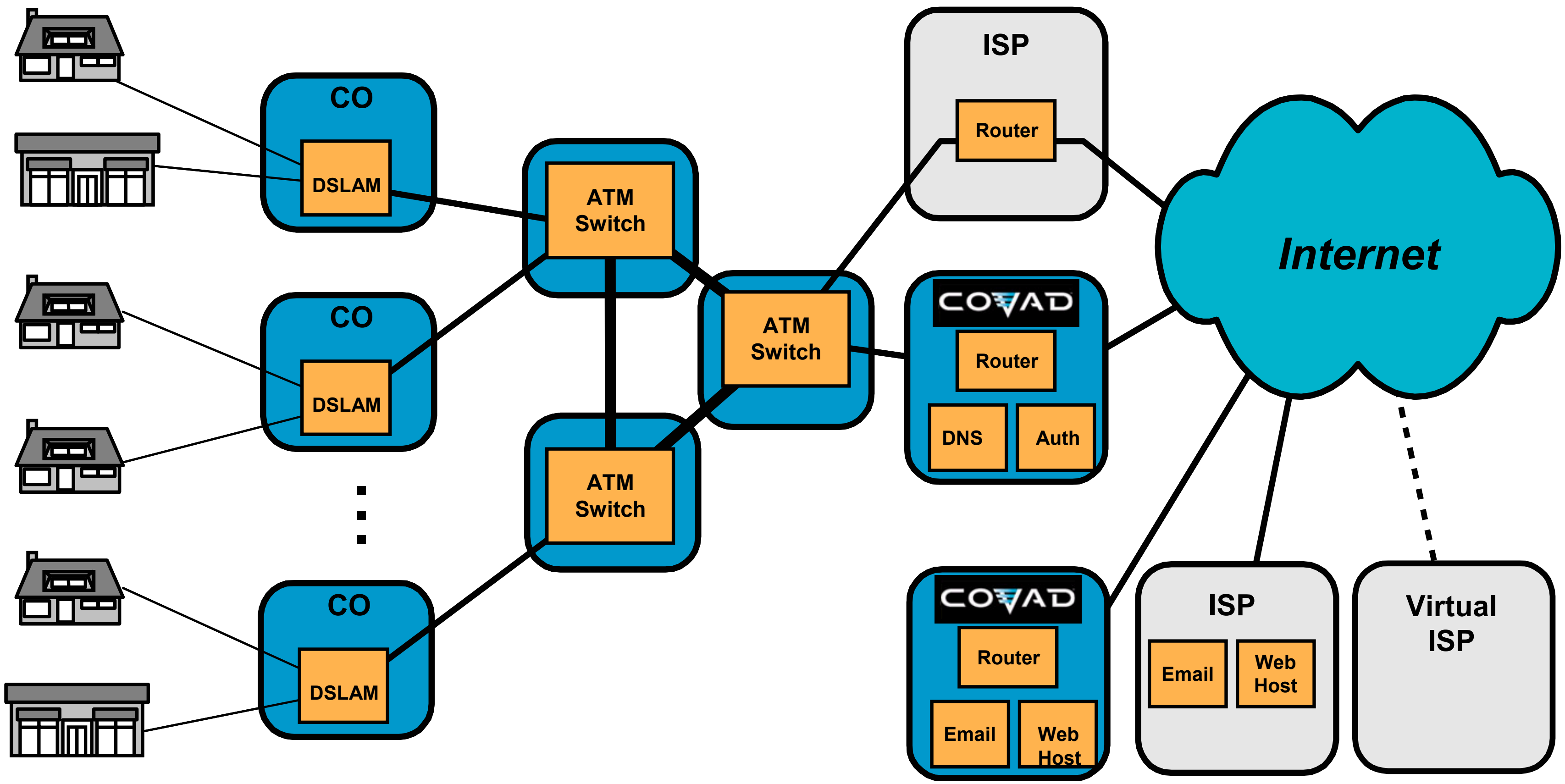
FCC Presentation
6/2004

Business Update

Facilities-Based Voice and Data Network

- Covad has invested **hundreds of millions of dollars** in its facilities-based network. Covad continues to invest:
  - \$48 million purchase of VoIP provider GoBeam in 1Q ’04
  - \$125 million raised in 1Q ’04 to help fund VoIP rollout
  - Expansion into 200 additional central offices in 2004
- **Layer 2 Network Architecture**
  - Over 120 ATM switches and collocated facilities/DSLAMs in over 1900 central offices
  - 45 million homes and businesses passed in 35 states
- **Layer 3 Network Architecture**
  - DSL+IP Point-of-Presence (POP) equipment
  - 16 POPs nationwide collocated with Level 3
- **Voice Service Architecture**
  - VoIP services combine Covad facilities-based broadband network with GoBeam VoIP assets.
  - Additional incremental investments expected (softswitches, media gateways, BRAS upgrades, ATM backbone expansion, DSLAM upgrades, network monitoring equipment).

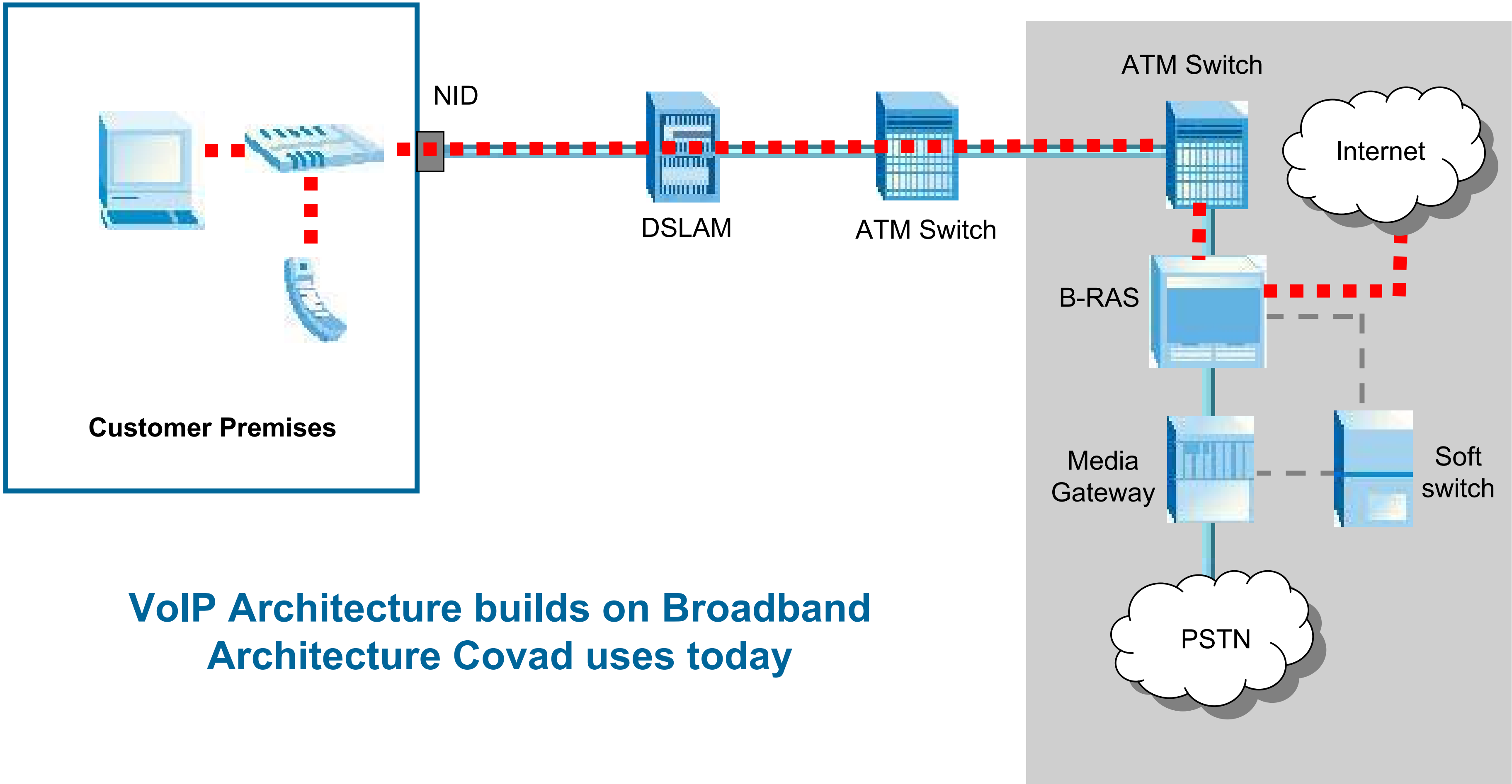
Covad Broadband Network Architecture



Voice Services Rollout

- **Voice Optimized Access**
  - Modifies existing DSL services to provide an access line for VoIP delivery.
  - Quality of Service guarantees and Service Level Agreements for voice enabled via management of last mile transmission facilities.
- **Full Suite of VoIP Services**
  - GoBeam serves SME and Enterprise businesses.
    - PBXi product offers migration from legacy PBX to VoIP
    - vPBX product offers complete hosted-PBX VoIP solution
  - Covad plans to expand VoIP service into consumer and SOHO segments across nationwide footprint.
  - Enhanced Features – “Dashboard” Web interface, unified visual voice and fax mail, follow-me calling, Outlook integration, conferencing, Web collaboration
  - POTS features – LNP, 911, directory assistance

Covad VoIP Service Architecture



VoIP Architecture builds on Broadband Architecture Covad uses today

The Road Ahead

- **Covad's long-term prospects appear promising.**
  1. Line-splitting bundles with UNE-P voice
  2. Migration to voice/data bundles using VoIP
  3. Participation in Wi-Max Forum
- **Improving financial picture.**
  - $6.3 million EBIDTA profit in 1Q '04.
  - $57 million SBC debt paid off.
  - Cash-flow projected from -$3 to +$2 million for 2Q '04.
- **BUT significant short-term obstacles remain.**
  - Line-sharing phased out in Oct. '04, but line-splitting is not yet even fully operational.
  - TRO leaves Covad without hybrid loop access.
  - Bells continue to chip away at TDM loop access (e.g., T1 loops) through FCC proceedings and unilateral action.
  - **Line losses.** Covad has announced first line losses in its history (1,200 lines in 1Q '04).

FCC Action

Line Sharing Negotiations with Bells

- **Since Feb. ’03 Triennial decision**, Covad has pursued negotiations aggressively with all four Bell companies.
- **In April ’04, Covad and Qwest** signed a 3-year deal.
  - Agreement sets $5 MRC and $35 NRC for all line sharing charges (HFPL, OSS, conditioning, and installation) based on expected region-wide line volumes.
  - Covad has approached SBC, Verizon and BellSouth asking for line sharing agreements with the same terms.
- **Prospects for completing commercial deals with remaining major ILECs are highly uncertain**.
  - Qwest has embraced wholesale models, others have not
  - Other Bells have proposed unreasonable terms, including a MRC more than three times the Qwest rate.

Benefits of Line Sharing have increased, not decreased

- Much needed stability and continuity for CLEC broadband offerings while UNE-P/line splitting issues are resolved
- Line Sharing supports viable competitive offerings
  - Large ISPs remain committed to line sharing as means to provide alternative to ILEC DSL and cable
  - Competitive price points – competitive retail prices below ILEC wholesale prices
  - Serves as check on duopoly pricing, monopoly situations
- Line sharing can serve as vehicle to deliver advanced services to consumers and businesses wishing to retain basic ILEC voice services

Prompt FCC Action is required

- **Covad has taken all reasonable steps contemplated by TRO - commercial negotiations, pursuit of line splitting, but more time is required before line sharing is no longer needed for viable broadband competition**
- **Oct. 2004 cut off date** for line sharing 5 months away.
  - Rapid cut-off removes any Bell incentives to negotiate.
  - Bells can simply to wait to capture market in Oct. 2004.
- **Line-Splitting obstacles** remain, as evidenced by Covad's loss of 1,200 lines in 1Q '04.
- **USTA II casts large cloud** over line splitting business plans.
- **CHOICE Coalition Line Sharing Stay Petition and Earthlink reconsideration petition pending and should be acted upon promptly**
- **Covad-Qwest deal provides market-based terms** for line-sharing stay: 3 year term, with $5 MRC and $35 NRC.

BellSouth Petition for Clarification

- FCC appears poised to act on BellSouth petition.
- **Mass Market "Relief".** BellSouth seeks exemption from unbundling mass market Fiber-to-the-Premises loops.
  - BellSouth argues for an incentive to deploy fiber facilities delivering triple play of voice, video and data services to mass market consumers in MDUs.
- **Not Enterprise "Relief".** FCC shouldn't inadvertently relieve Bells of enterprise UNE loop obligations.
  - Residential customers don't buy T1 loops costing hundreds of dollars per month.
- **Narrow clarification** would remain consistent with TRO.
  1. Any unbundling exemptions adopted in clarification should be limited to greenfield, "new-build" scenarios.
  2. FCC should not eliminate unbundling of any enterprise loop types (e.g., DS1), even for "residential" FTTP MDU locations.
  3. FCC should limit any new unbundling exemptions in FTTP MDU locations to mass market loops used to serve residential customers.

BellSouth Petition for Clarification

- **Packet/TDM distinction**. What BellSouth claims to be asking for: simple clarification "that an ILEC is not required to deploy a new multiplexer that provides TDM functionality if it has no plans to do so for its own customers." Petition at 17.
- **"No facilities" by another name.** If granted, petition would permit BOCs to claim "no facilities" in any CO where they have packet switching equipment deployed.
  - BellSouth seeks to overturn the direction provided in the TRO:

    "[W]e find that loop modification functions that the incumbent LECs routinely perform for their own customers, and therefore must perform for competitors, include, but are not limited to, rearrangement or splicing of cable; adding a doubler or repeater; adding an equipment case; adding a smart jack; installing a repeater shelf; adding a line card; and deploying a new multiplexer or reconfiguring an existing multiplexer." TRO para. 634.
- **Even with incremental introduction of packet switching in ILEC networks, TDM will remain dominant means to provide digital loops.** Commission should clarify that, so long as BOCs continue to make TDM capabilities available on their networks, the TDM unbundling obligation remains.

Bell 271 Forbearance Petitions

- The BOC petitions simply collapse sections 251 and 271 analysis into one – they argue that if access is eliminated under 251, it must be eliminated under 271 automatically.
  - But the Commission held, and the D.C. Circuit affirmed, that 251 and 271 access obligations *are* different.
  - The Commission's 251 analysis found that CLECs ARE impaired from competing without access to existing broadband-capable loops.
- **Clarify, don't forbear.** Rather than making sweeping factual and/or legal forbearance findings with respect to all broadband loops, the Commission can simply clarify the parameters of section 271 access obligation to make clear that the obligation does not apply to new, fiber to the home loops.
  - Clarification allows quick resolution of BOC requests for clarity without morass of Section 10 interpretation that may unduly hinder future Commission action.